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Honorable Jennifer M. Granholm
P.O. Box 30013
Lansing, MI 48909

Dear Governor Granholm:

We are writing in connection with the 2008 draft Qualified Allocation Plan (QAP) that was recently posted to the Michigan Housing Development Authority's website.

First Centrum, LLC and its predecessor companies did a reasonably significant amount of business through MSHDA during the 1980s and 1990s, using the Low Income Housing Tax Credit program for approximately one-half of the more than 150 projects it built in Michigan during that period. In addition, First Centrum used various MSHDA debt programs to finance approximately 20 of those projects.

When it became apparent several years ago that MSHDA was in the process of transitioning to an organization that was as much a social service agency as a housing authority, First Centrum sought other financing options and, eventually, relocated from Michigan to the MidAtlantic, where it has continued, until recently, to work actively with other state housing authorities.

Upon review of the latest draft QAP and the proposed changes to its debt programs, it seems evident that MSHDA is nearing the completion of that transition to an agency as much dedicated to dealing with social ills as providing housing, and offers little of interest to the for-profit real estate development community. As such, we don't believe it would be worthwhile for us to comment on the QAP elements having to do with new production. This is not intended to be a judgment as to the validity of MSHDA's mission, but a simple opinion as to economic reality.

We do, however, feel it is important to point out the likely consequences of directing resources away from affordable housing preservation, and particularly away from preservation of projects in the markets that represented the bulk of MSHDA's production for many years. Although final changes to the draft QAP have re-established, to some degree, preservation priority within targeted geographic set-asides, and have reinstated a 10% general set-aside for preservation, this does not cover many of the projects that will be "at risk" in the near future. Those projects are in many markets within the state, are getting older, and many are in need of rehab and recapitalization. In the case of successful projects, that could be accomplished by selling or refinancing the projects, a scenario that usually results in positive results for the seller (cashing out its equity), the buyer (the opportunity for fees and cash flow), the lender (improvement to its collateral) and the residents (a better place to live), but because of tax credit and debt program regulation, this can only be accomplished if there are incentives for preservation.

Where the local market has deteriorated, which is the case in most markets in Michigan today, the need to dedicate MSHDA resources is even more acute since non-agency financing sources are typically not available.

Although the new priorities of serving certain distressed areas and providing supportive services are laudable in some respects, the use of tax credits to meet those priorities is an inefficient use of the resources, mainly because they are fundamentally social service programs, not housing programs, and the low-income housing tax credit was designed to create housing, not social services. It is certainly the prerogative of MSHDA and its Board to use the resources for those purposes, and we assume they understand the inherent operational and financial inefficiencies, however to reduce, rather than increase, the preservation set-aside as a result is, we believe, short-sighted.

It is probably not worthwhile to recite all of the rationale for why preservation makes sense, including highlighting the number of states (and it is most of them, including states that have a "younger" portfolio than Michigan) that have placed it as a priority in their QAP, since these arguments appear to have been already made by developers currently doing new deals in Michigan. It should suffice to point out that any expectation that these older deals will somehow "take care of themselves", or that the owners will, in all cases, come out of pocket to continue to support them beyond the tax credit compliance period is both naïve and disingenuous. Without some economic incentive to do so, owners will ultimately cease to support aging projects and buyers will not be interested in taking on the task of recapitalizing them. MSHDA's strategy of doing nothing other than increasing its demands on owners for additional capital reserves and keeping current owners locked into these projects is a failing strategy. Ultimately, MSHDA will find it has taken back more projects than it would have had it supported preservation, and will find the demand on its resources will be greater to own and operate failing projects than to be proactive towards preservation now.

We strongly urge MSHDA and its Board to better balance its priorities and re-establish a meaningful level of preservation set-aside to its tax credit and equity programs.

Very truly yours,
FIRST CENTRUM, LLC

Mark L. Weshinskey, President

cc: MSHDA Board
Mary Levine--MSHDA